

SALT LAKE COUNTY SERVICE AREA #3

**INDEPENDENT AUDITORS' REPORT
AND
FINANCIAL STATEMENTS**

December 31, 2006 and 2005

HANSEN, BARNETT & MAXWELL, P.C.

A Professional Corporation
CERTIFIED PUBLIC ACCOUNTANTS

SALT LAKE COUNTY SERVICE AREA #3

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Registered with the Public Company
Accounting Oversight Board



INDEPENDENT AUDITORS' REPORT

To the Board of Trustees
Salt Lake County Service Area #3

We have audited the accompanying balance sheets of Salt Lake County Service Area #3 as of December 31, 2006 and 2005, and the related statements of revenues, expenses and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Service Area's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Salt Lake County Service Area #3 as of December 31, 2006 and 2005, and the results of its operations and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated June 11, 2007 on our consideration of the Salt Lake County Service Area #3's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis, as listed in the table of contents, is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Hansen, Barnett & Maxwell, P.C.

HANSEN, BARNETT & MAXWELL, P.C.

Salt Lake City, Utah
June 11, 2007

SALT LAKE COUNTY SERVICE AREA #3

Management's Discussion and Analysis

December 31, 2006

The following is a discussion and analysis of Salt Lake County Service Area #3's financial performance providing an overview of the Service Area's financial activities for the year ended December 31, 2006. It should be read in conjunction with the Service Area's financial statements.

Salt Lake County Service Area #3 was created on September 3, 1970 for the purpose of providing water and wastewater service to the residents of the area. The Service Area operations are overseen by a three-member board of trustees. The three members are elected by the residents of the Service Area and serve 4-year terms.

Financial Highlights

- The assets of Salt Lake County Service Area #3 exceeded its liabilities at the close of the year by \$1,684,490.
- The Service Area's net assets decreased by \$83,105.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Service Area's financial statements. The Service Area's financial reporting consists of two components: 1) financial statements, and 2) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

The Service Area uses proprietary fund accounting to account for operations that are financed and operated in a manner similar to private business enterprises – where the intent of the governing body is that the costs of providing goods and services to the general public on a continuing basis be financed or recovered primarily through user charges. Therefore, the financial statements are designed to provide readers with a broad overview of the Service Area's finances in a manner similar to a private-sector business.

The *balance sheet* presents information on all of the Service Area's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Service Area is improving or deteriorating.

The *statement of revenues, expenses and changes in net assets* presents information showing how the Service Area's net assets changed during the most recent year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future periods (e.g. earned but unused vacation leave).

The *statement of cash flows* shows what affect the Service Area's operating activities, investing activities, and financing activities had on cash flows. Cash is vital to all organizations, and this statement helps the reader understand how the Service Area received and used cash during the year.

Notes to Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes are an integral part of the financial statements.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents certain information relating to the operations of the Service Area without regard to depreciation or impact fees, which is compared to budgeted amounts.

Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the Service Area, assets exceeded liabilities by \$1,684,490 at the end of the year.

Salt Lake County Service Area #3's Net Assets

	2006	2005	2004
Current Assets	\$ 758,432	\$ 704,240	\$ 704,926
Capital Assets - Net	1,019,403	1,143,620	1,195,050
Deposits	7,216	7,216	7,216
Total Assets	<u>\$ 1,785,051</u>	<u>\$ 1,855,076</u>	<u>\$ 1,907,192</u>
Current Liabilities	<u>\$ 100,561</u>	<u>\$ 87,481</u>	<u>\$ 70,148</u>
Net Assets:			
Invested in capital assets	1,019,403	1,143,620	1,195,050
Unrestricted	665,087	623,975	641,994
Total Net Assets	<u>\$ 1,684,490</u>	<u>\$ 1,767,595</u>	<u>\$ 1,837,044</u>

The largest portion of the Service Area's assets (60%) reflects its investment in capital assets (e.g. land, buildings, equipment, sewer line, and water treatment plant).

The remaining balance of *unrestricted net assets* (40%) may be used to meet the Service Area's obligations to customers, member agencies, employees, and creditors to honor next year's budget.

As of December 31, 2006, 2005 and 2004 *total assets* and *total net assets* declined slightly because of depreciation.

Salt Lake County Service Area #3 Changes in Net Assets

	2006	2005	2004
Operating Revenues			
Service fee revenue	\$ 562,106	\$ 557,706	\$ 555,538
Property tax revenue	29,971	29,488	30,089
Miscellaneous income	29,864	18,728	22,758
Total revenues	<u>621,941</u>	<u>605,922</u>	<u>608,385</u>
Operating Expenses			
Cost of sales and service	234,977	216,318	202,047
General and administrative	323,316	300,750	309,302
Depreciation expense	175,983	177,866	179,258
Total expenses	<u>734,276</u>	<u>694,934</u>	<u>690,607</u>
Net Non-Operating Revenues (Expenses)	<u>29,230</u>	<u>19,563</u>	<u>9,841</u>
Change in net assets	(83,105)	(69,449)	(72,381)
Net Assets at Beginning of Year	<u>1,767,595</u>	<u>1,837,044</u>	<u>1,909,425</u>
Net Assets at End of Year	<u>\$ 1,684,490</u>	<u>\$ 1,767,595</u>	<u>\$ 1,837,044</u>

The Service Area's net assets decreased by \$ 83,105. Key elements of this decrease are as follows:

- Operating expenses increased \$39,342
- Increases in Service expense closely paralleled inflation.
- Depreciation of capital assets.

Unrestricted net assets of the Service Area as of December 31, 2006, 2005 and 2004 amounted to \$665,087, \$623,975 and \$641,994 respectively.

Capital Asset and Debt Administration

Capital Assets

The Service Area's investment in capital assets as of December 31, 2006, 2005 and 2004 amounted to \$1,019,403, \$1,143,620 and \$1,195,050, respectively (net of accumulated depreciation). This investment in capital assets includes the sewer system, water system, building and improvements, vehicles, equipment, and computer and telemetry equipment.

Major capital events during the current year included:

• Sewer outfall line replacement/ improvements	\$ 14,401
• Computer & Telemetry upgrades	2,857
• Water Treatment plant improvements	13,822
• Meadows Pump station controller	2,807
• Fire Station improvements	20,162
• Other miscellaneous	<u>1,744</u>
Total Capital improvements for 2006:	<u><u>\$ 55,793</u></u>

Based on the problems found in the sewer outfall line during 2005, we did a video inspection of the entire canyon sewer line in 2006. We found the pipe to be in good condition overall with very little signs of infiltration. However there was a section of pipe in the Tanners Flat section of the canyon that had significant deposits on the interior lining of the pipe. We replaced a section of this pipe with new pipe in order to make a determination as to the actual make up of the deposits and if the outer lining was compromised.

We also did improvements to the Wasatch Drain Tunnel water treatment plant. This included new chlorination equipment, automated electric valves and new paint coatings.

The Fire Station was upgraded to house 4 fire fighters full time.

Salt Lake County Service Area #3 Capital Assets
(Net of depreciation)

	2006	2005	2004
Land	\$ 185,310	\$ 185,310	\$ 185,310
Buildings, plant and equipment - net	834,093	958,310	1,009,740
Net Capital Assets	<u>\$1,019,403</u>	<u>\$ 1,143,620</u>	<u>\$ 1,195,050</u>

Additional information on the Service Area's capital assets can be found in the notes to the financial statements.

The Service Area is not aware of any existing conditions that will significantly change its financial position in the current year.

Request for Information

This financial report is designed to provide a general overview of Salt Lake County Service Area #3's finances. Questions concerning any of the information provided in this report, or requests for additional financial information should be addressed to Keith Hanson, General Manager, Salt Lake County Service Area #3 P.O. Box 920067, Snowbird UT. 84092-0067.

**SALT LAKE COUNTY SERVICE AREA #3
BALANCE SHEETS
DECEMBER 31, 2006 AND 2005**

	<u>2006</u>	<u>2005</u>
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 688,622	\$ 599,963
Accounts receivable	50,592	89,770
Supplies inventory	5,000	5,000
Prepaid expenses	14,218	9,507
Total Current Assets	<u>758,432</u>	<u>704,240</u>
Capital Assets		
Land	185,310	185,310
Buildings, plant and equipment	4,471,808	4,420,046
	4,657,118	4,605,356
Less: Accumulated Depreciation	<u>(3,637,715)</u>	<u>(3,461,736)</u>
Net Capital Assets	<u>1,019,403</u>	<u>1,143,620</u>
Deposits	<u>7,216</u>	<u>7,216</u>
Total Assets	<u><u>\$ 1,785,051</u></u>	<u><u>\$ 1,855,076</u></u>
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable	\$ 68,306	\$ 61,042
Accrued salaries	5,796	5,052
Accrued payroll and other taxes	3,882	5,412
Compensated absences payable	22,577	15,975
Total Current Liabilities	<u>100,561</u>	<u>87,481</u>
Net Assets		
Invested in capital assets	1,019,403	1,143,620
Unrestricted	665,087	623,975
Total Net Assets	<u>1,684,490</u>	<u>1,767,595</u>
Total Liabilities and Net Assets	<u><u>\$ 1,785,051</u></u>	<u><u>\$ 1,855,076</u></u>

The accompanying notes are an integral part of these financial statements.

**SALT LAKE COUNTY SERVICE AREA #3
STATEMENTS OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS
FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005**

	<u>2006</u>	<u>2005</u>
Operating Revenues		
Service fees	\$ 562,106	\$ 557,706
Property taxes	29,971	29,488
Other revenues and fees	29,864	18,728
Total Operating Revenues	<u>621,941</u>	<u>605,922</u>
Operating Expenses		
Cost of sales and services	234,977	216,318
General and administrative	323,316	300,750
Depreciation	175,983	177,866
Total Operating Expenses	<u>734,276</u>	<u>694,934</u>
Operating Loss	<u>(112,335)</u>	<u>(89,012)</u>
Interest income	<u>29,230</u>	<u>19,563</u>
Change in Net Assets	(83,105)	(69,449)
Net Assets at Beginning of Year	<u>1,767,595</u>	<u>1,837,044</u>
Net Assets at End of Year	<u><u>\$ 1,684,490</u></u>	<u><u>\$ 1,767,595</u></u>

The accompanying notes are an integral part of these financial statements.

SALT LAKE COUNTY SERVICE AREA #3
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

	<u>2006</u>	<u>2005</u>
Cash Flows From Operating Activities		
Cash received from customers	\$ 601,284	\$ 518,893
Cash received from other government	29,971	29,686
Other operating cash receipts	29,864	18,728
Cash paid for operating goods and services	(390,718)	(350,254)
Cash paid to employees	(159,210)	(149,609)
Net Cash From Operating Activities	<u>111,191</u>	<u>67,444</u>
Cash Flows From Investing Activities		
Purchase of property and equipment	(51,762)	(126,436)
Interest earned on cash and equivalents	29,230	19,563
Net Cash From Investing Activities	<u>(22,532)</u>	<u>(106,873)</u>
Net Change in Cash and Cash Equivalents	88,659	(39,429)
Cash and Cash Equivalents at Beginning of Year	<u>599,963</u>	<u>639,392</u>
Cash and Cash Equivalents at End of Year	<u><u>\$ 688,622</u></u>	<u><u>\$ 599,963</u></u>
Reconciliation of Loss from Operations to Cash From Operating Activities:		
Operating loss	\$ (112,335)	\$ (89,012)
Adjustment to reconcile operating income to net cash provided by operating activities:		
Depreciation	175,983	177,866
Changes in assets and liabilities:		
Accounts receivable	39,178	(38,616)
Prepaid expenses	(4,711)	(127)
Accounts payable	7,260	13,912
Accrued salaries	744	1,077
Accrued payroll and other taxes	(1,530)	1,870
Compensated absences payable	6,602	474
Net Cash From Operating Activities	<u><u>\$ 111,191</u></u>	<u><u>\$ 67,444</u></u>

The accompanying notes are an integral part of these financial statements.

SALT LAKE COUNTY SERVICE AREA #3
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND 2005

NOTE 1 — ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Salt Lake County Service Area #3 (the Service Area) was organized on September 3, 1970 to acquire and operate a sewage system and culinary water system, along with providing other services deemed necessary by the governing body. The Service Area provides sewer and water to the surrounding community in Little Cottonwood Canyon, Utah. Also, the Service Area leases fire-fighting facilities to the United Fire Authority.

The financial statements of the Service Area have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Service Area's accounting policies are described below.

The Reporting Entity — The Service Area is an independent reporting entity with its own elected governing body and is not a component unit of any other government. This determination has been made using the following criteria: The Service Area's three member Board of Trustees is the governing authority and is elected in general elections for four-year terms. The Board establishes the Service Area's policy, approves the annual budget, appoints those responsible for administrative and fiscal activities and issues its own debt.

In evaluating how to define the government, for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth the GASB Statement No. 14. GASB Statement No. 39 provides additional guidance to determine whether certain organizations for which the primary government is not financially accountable should be reported as component units based on the nature and significance of their relationship with the primary government. The criteria include the following:

- The organization is legally separate (can sue or be sued in its own name).
- The Board appoints a voting majority of the organization's board.
- The Board is able to impose its will on the organization.
- The organization has the potential to impose a financial benefit/burden on the Board.
- There is fiscal dependency on the Board by the organization.
- The economic resources received or held by the separate organization are entirely or almost entirely for the direct benefit of the primary government, its component units, or its constituents.
- The primary government, or its component units, is entitled to, or has the ability to otherwise access, a majority of the economic resources received or held by the separate organization.
- The economic resources received or held by an individual organization that the specific primary government, or its component units, is entitled to, or has the ability to otherwise access, are significant to that primary government.

Based on these criteria, there are no component units which should be included in these financial statements.

Basis of Accounting — The accrual basis of accounting is used whereby revenues are recorded when earned and expenses are recorded when liabilities are incurred. In accordance with GASB Statement No. 20, for Proprietary Fund accounting, the Service Area applies all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedures.

Budgets and Budgetary Accounting — The Service Area adopts an annual budget in accordance with State statutes. Related appropriations are approved for the fund type. The annual budget for the Fund is prepared in accordance with the cash basis of accounting. Legal spending control for Service Area monies is at the fund level, but management control is exercised at budgetary line item levels. The Service Area may amend the budget after it is approved, and may also authorize transfers within the various line items in the fund. Unused appropriations lapse at the end of the year.

Cash and Cash Equivalents — For purposes of the Statement of Cash Flows, the Service Area considers all highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents.

Accounts Receivable — Due to past collection history and the lien privileges of the Service Area, no allowance for bad debts was made. In recent years there have been limited bad debts, and collection of all receivables is reasonably certain.

Supplies Inventory — The Service Area maintains an inventory of parts to be used in the repair and maintenance of the water and sewer systems. This inventory is valued at the lower of cost or market.

Capital Assets — Capital assets are stated at cost. The Service Area depreciates all of its capital assets by use of the straight-line method. Expenses for maintenance, repairs and minor renewals are expensed as incurred. Property and equipment are depreciated over the following estimated useful lives as follows:

Sewer and water lines	18 - 30 years
Water system and treatment plant	20 years
Buildings	40 years
Equipment and trucks	5 - 10 years

Depreciation expense for the years ended December 31, 2006 and 2005 was \$175,983 and \$177,866, respectively.

Deposits — The amount in Deposits includes a letter of credit from the Utah Local Governments Trust that may be used to offset costs of future health insurance premiums.

Use of Estimates — The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Due to their nature, actual results could differ from those estimates.

Operating and Non-Operating Revenue and Expenses — Operating revenues and expenses result from providing goods and services relating to the primary operations of the Service Area. Other revenues and expenses are reported as non-operating.

New Accounting Standards — In March, 2003, the GASB issued Statement No. 40, "Deposit and Investment Risk Disclosures, an amendment of GASB Statement No. 3" which is effective for the Service Area for the year ended December 31, 2005. This statement amends Statement No. 3 and it is designed to improve financial statement disclosures regarding the inherent risks in deposit and investment transactions. It requires changes to how deposits and investments are reported in the annual financial statements, and is designed to inform financial statement users about deposit and investment risks that could affect a government's ability to provide services and meet its obligations as they become due. This Statement was adopted for the Service Area's December 31, 2005 fiscal year.

NOTE 2 — CASH DEPOSITS AND INVESTMENTS

Cash Deposits — The carrying amount of the Service Area's deposits with financial institutions was \$103,861 and the bank balance was \$117,752. The bank balance is comprised of a checking account balance and a sweep/repurchase agreement balance. Repurchase agreements are not insured or guaranteed by the Federal Deposit Insurance Corporation (FDIC). The repurchase agreement held by the Service Area is collateralized by US Bank for approximately 99% of the balance held. The collateral held by US Bank at December 31, 2006 was \$117,752.

Bank balances collateralized or insured are as follows at December 31, 2006:

Checking account balance insured by the FDIC	\$ -
Repurchase agreement balance collateralized by US Bank	<u>117,752</u>
Total bank balance	<u>\$ 117,752</u>

Investments — The Service Area's deposits and investment policy follows the requirements of the Utah Money Management Act (Utah Code Annotated 1953, Chapter 7) in handling its depository and temporary investing transactions. This law requires the depositing of Service Area's funds in a "qualified depository." The Act defines a "qualified depository" as any financial institution whose deposits are insured by an agency of the Federal Government and which has been certified by the Commissioner of Financial Institutions as meeting the requirements of the Act and adhering to the rules of the Utah Money Management Council.

The Money Management Act also governs the scope of securities allowed as appropriate temporary investments for the Service Area and conditions for making investment transactions. Investment transactions are to be conducted through qualified depositories or primary reporting dealers. Allowable investments under the Act include:

1. Negotiable or nonnegotiable deposits of qualified depositories,
2. Repurchase agreements with qualified depositories or primary reporting dealers,
3. Commercial paper which is rated P-1 by Moody's Investor Services or A-1 by Standard and Poors if the remaining term to maturity is 180 days or less,
4. Bankers' acceptances that are eligible for discount at a federal reserve bank and which have a remaining term of 180 days or less,
5. Obligations of the United States Treasury, including bills, notes and bonds,

6. Obligations issued by or fully guaranteed as to principal and interest by the following agencies or instrumentalities of the United States in which a market is made by a primary reporting government securities dealer: Federal Farm Credit banks, Federal Home Loan banks, Federal National Mortgage Association, Government National Mortgage Association, Federal Home Loan Mortgage Corporations, or Student Loan Marketing Association.
7. Shares or certificates in any open-end management investment company registered with the Securities and Exchange under the Investment Company Act of 1940, the portfolio of which is restricted by law or agreement to investments in which public funds may be invested directly.

A State Money Management Council was created under the State Money Management Act consisting of five individuals appointed by the Governor and qualified by training and experience in the fields of investing and finance. In performing its functions and responsibilities, the council provides a measure of depository protection. The council issues a list of qualified depositories to public treasurer's quarterly, and monitors the maximum amount of public funds each depository is eligible to hold in accordance with the law and the rules of the council. State law and council rules govern the finance reporting requirements of qualified depositories in which public funds may be deposited and prescribe the conditions under which the designation of a depository shall remain in effect. If a qualified depository should become ineligible to hold public funds, the public treasurers are notified immediately.

The Service Area has invested all of its temporarily idle funds (totaling \$584,761 as of December 31, 2006) with the Utah Public Treasurer's Investment Fund (PTIF). The Utah State Treasurer's Office operates the PTIF which is invested in accordance with the State Money Management Act. The State Money Management Council provides regulatory oversight for the PTIF.

The investments with the State bore interest at 5.22% at December 31, 2006. The carrying amount is materially equal to fair value. All securities comprising the PTIF comply with strict investment criteria required by the Utah Money Management Act. All practices of the Fund are under the monthly scrutiny of the Utah Money Management Act. The Utah State Auditor audits the Fund each year. The degree of risk of the fund depends upon the underlying portfolio. Parties interested in learning what specific investments comprise the State Treasurer's Fund may contact the Utah State Treasurer's Office. The investment in the state investment pool is classified as a cash equivalent for purposes of the statement of cash flows.

Investment Interest Rate Risk — The Service Area does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Summary — The above described Deposits and Investments are summarized and presented in the financial statements at cost in accordance with the following analysis:

	<u>2006</u>	<u>2005</u>
Deposits	\$ 103,861	\$ 9,410
Investments	<u>584,761</u>	<u>590,553</u>
Cash and Cash Equivalents	<u>\$ 688,622</u>	<u>\$ 599,963</u>

NOTE 3 — CAPITAL ASSETS

The following is a summary of the capital asset activity for the year ended December 31, 2006:

	Balance December 31, 2005	Additions	Disposals	Balance December 31, 2006
Capital assets not being depreciated:				
Land	\$ 185,310	\$ -	\$ -	\$ 185,310
Capital assets being depreciated:				
Sewer system	693,038	12,074	-	705,112
Water system	2,820,700	14,969	-	2,835,669
Building	340,863	-	-	340,863
Improvements	176,903	20,161	-	197,064
Vehicles	34,986	-	-	34,986
Equipment	97,247	1,705	-	98,952
Computers and telemetry	256,309	2,853	-	259,162
Total capital assets being depreciated	4,420,046	51,762	-	4,471,808
Accumulated depreciation:				
Sewer system	640,912	5,030	-	645,942
Water system	2,219,040	139,052	-	2,358,092
Building	185,507	8,687	-	194,194
Improvements	61,905	8,303	-	70,208
Vehicles	23,285	6,997	-	30,282
Equipment	96,326	893	-	97,219
Computers and telemetry	234,761	7,017	-	241,778
Total accumulated depreciation	3,461,736	175,979	-	3,637,715
Total capital assets being depreciated, net	958,310	(124,217)	-	834,093
Capital assets, net	<u>\$ 1,143,620</u>	<u>\$ (124,217)</u>	<u>\$ -</u>	<u>\$ 1,019,403</u>

The following is a summary of the capital asset activity for the year ended December 31, 2005:

	Balance December 31, 2004	Additions	Disposals	Balance December 31, 2005
Capital assets not being depreciated:				
Land	\$ 185,310	\$ -	\$ -	\$ 185,310
Capital assets being depreciated:				
Sewer system	678,602	14,436	-	693,038
Water system	2,722,163	98,537	-	2,820,700
Building	340,863	-	-	340,863
Improvements	176,049	854	-	176,903
Vehicles	34,986	-	-	34,986
Equipment	97,247	-	-	97,247
Computers and telemetry	243,700	12,609	-	256,309
Total capital assets being depreciated	4,293,610	126,436	-	4,420,046
Accumulated depreciation:				
Sewer system	636,228	4,684	-	640,912
Water system	2,079,094	139,946	-	2,219,040
Building	176,819	8,688	-	185,507
Improvements	53,027	8,878	-	61,905
Vehicles	16,288	6,997	-	23,285
Equipment	94,646	1,680	-	96,326
Computers and telemetry	227,768	6,993	-	234,761
Total accumulated depreciation	3,283,870	177,866	-	3,461,736
Total capital assets being depreciated, net	1,009,740	(51,430)	-	958,310
Capital assets, net	\$ 1,195,050	\$ (51,430)	\$ -	\$ 1,143,620

NOTE 4 — COMPENSATED ABSENCES

Employees of the Service Area are entitled to compensation in the form of paid vacation and sick leave. According to policy, the vacation pay accrues at a rate of 1 to 1.5 days per full month of service rendered. The number of unused vacation days, up to a maximum of 40, can be carried forward to the beginning of the next calendar year. Employees also accumulate sick days at a rate of one day per month, with a carry-over limit of 180 days. Upon retirement or voluntary resignation, employees may be paid up to 20% of their unused sick leave.

NOTE 5 — RETIREMENT PLAN

Plan Description — The Salt Lake County Service Area #3 contributes to the Local Governmental Noncontributory Retirement System cost-sharing multiple-employer defined benefit pension plans administered by the Utah Retirement Systems (Systems). Utah Retirement Systems provide refunds, retirement benefits, annual cost of living allowances and death benefits to plan members and beneficiaries in accordance with retirement statutes established and amended by the State Legislature.

The Systems are established and governed by the respective sections of Chapter 49 of the Utah Code annotated 1953 as amended. The Utah State Retirement Office Act in Chapter 49 provides

for the administration of the Utah Retirement Systems and Plans under the direction of the Utah State Retirement Board (Board) whose members are appointed by the Governor. The Systems issue a publicly available financial report that includes financial statements and required supplementary information for the Local Governmental Noncontributory Retirement System. A copy of the report may be obtained by writing to the Utah Retirement Systems, 540 East 200 South, Salt Lake City, UT 84102 or by calling 1-800-365-8772.

Funding Policy — Plan members in the Local Governmental Noncontributory Retirement System (the Salt Lake County Service Area #3) were required to contribute 11.09% of their annual covered salary for the period from January 2006 to June 2006 and 11.59% of their annual covered salary for the period from July 2006 to December 2006. The contribution rates are the actuarially determined rates. The contribution requirements of the Systems are authorized by statute and specified by the Board.

The Salt Lake County Service Area #3 contributions to the Noncontributory Retirement System for the years ended December 31, 2006 and 2005 were \$14,535 and \$14,265, respectively. The Service Area joined the Systems effective on January 1, 1995. The contribution made was equal to the required contribution for the year.

NOTE 6 — ECONOMIC DEPENDENCY

The Service Area receives approximately 83% of its annual service fee revenues from a large ski resort located within its boundaries. The economic health of the resort is determined, in large part, on the annual snowfall.

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Accounting Oversight Board



REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Trustees
Salt Lake County Service Area #3

We have audited the financial statements of Salt Lake County Service Area #3 as of and for the year ended December 31, 2006, and have issued our report thereon dated June 11, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Salt Lake County Service Area #3's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of Salt Lake County Service Area #3's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Salt Lake County Service Area #3's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of Salt Lake County Service Area #3's financial statements that is more than inconsequential will not be prevented or detected by Salt Lake County Service Area #3's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that result in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by Salt Lake County Service Area #3's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Salt Lake County Service Area #3's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results

of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Board of Trustees, management, and governmental oversight bodies and is not intended to be and should not be used by anyone other than these specified parties.

Hansen, Barnett & Maxwell, P.C.

HANSEN, BARNETT & MAXWELL, P.C.

Salt Lake City, Utah
June 11, 2007

HANSEN, BARNETT & MAXWELL, P.C.

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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH GENERAL AND SPECIFIC REQUIREMENTS APPLICABLE TO AUDITS OF LOCAL GOVERNMENTS IN UTAH

To the Board of Trustees
Salt Lake County Service Area #3

We have audited the financial statements of the Salt Lake County Service Area #3 for the year ended December 31, 2006, and have issued our report thereon dated June 11, 2007. Our audit included test work on the Service Area's compliance with those general compliance requirements identified in the State of Utah Legal Compliance Audit Guide, including:

- Cash Management
- Purchasing Requirements
- Budgetary Compliance
- Truth in Taxation & Property Tax Limitations
- Special Districts
- Other General Issues

The Service Area did not receive any major or nonmajor State grants during the year ended December 31, 2006.

The management of the Salt Lake County Service Area #3 is responsible for the Service Area's compliance with all compliance requirements identified above. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the Service Area's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

The results of our audit procedures disclosed no instances of noncompliance with the requirements referred to above.

In our opinion, the Salt Lake County Service Area #3, complied, in all material respects, with the general compliance requirements identified above for the year ended December 31, 2006.

Hansen, Barnett & Maxwell, P.C.
HANSEN, BARNETT & MAXWELL, P.C.

Salt Lake City, Utah
June 11, 2007